TD/B/1256 (Vol. III)

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Sixteenth special session (8-9 and 16 March 1990)

OFFICIAL RECORDS
Supplement No. 1A

Report

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UNITED NATIONS
New York, 1990

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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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For the recommendations, resolutions, declarations and decisions adopted by the United Nations Conference on Trade and Development, see:

First session: *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 18-65;

Second session: *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1 and 2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex I, A, pp. 28-58;

Third session: *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex I, A, pp. 53-114;

Fourth session: *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I and Corr.1, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), part one, sect. A, pp. 6-43;

Fifth session: *Proceedings of the United Nations Conference on Trade and Development, Fifth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.79.II.D.14), part one, sect. A, pp. 6-50;

Sixth session: *Proceedings of the United Nations Conference on Trade and Development, Sixth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.83.II.D.6), part one, sect. A, pp. 6-40;

Seventh session: *Proceedings of the United Nations Conference on Trade and Development, Seventh Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A, pp. 6-27.

Supplement No. 1 (TD/B/1256 (Vol. I)) contains the decision of the Board at its sixteenth special session. The present Supplement No. 1A contains the full version of the report of the Board on that session.

TD/B/1256 (Vol. II)

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INTRODUCTION

1. The sixteenth special session of the Trade and Development Board was convened pursuant to paragraph 8 of Board decision 317 (S-XIV).

2. The present report provides an account of the Board's proceedings at its sixteenth special session (763rd to 765th and 770th plenary meetings), which was held at the Palais des Nations, Geneva, on 8-9 and 16 March 1990.

Chapter I

COMPENSATORY FINANCING OF EXPORT EARNINGS SHORTFALLS: REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS CONVENED PURSUANT TO BOARD DECISION 317 (S-XIV)

(Agenda item 2)

3. For its consideration of this item, the Board had before it the report of the Intergovernmental Group of Experts on the Compensatory Financing of Export Earnings Shortfalls on its resumed second session (TD/B/1216-TD/B/AC.43/11).

4. The Secretary-General of UNCTAD, introducing the item and the report of the Intergovernmental Group of Experts, briefly summarized the discussions and actions undertaken during the previous three decades both outside and inside UNCTAD, including the establishment of the IMF-CFF, STABEX, SYSMIN, STABEX-LDC-ALA and the new Swiss compensatory financing programme. Earlier discussions in UNCTAD had resulted in agreement being reached on compensatory financing within the context of the Integrated Programme for Commodities, and subsequent discussions had led to the establishment of the Intergovernmental Group of Experts, whose report was before the Board. The Board was required, at its sixteenth special session, to decide on requisite follow-up action.

5. The Intergovernmental Group of Experts had met three times between 1986 and 1989. In reaching its conclusions, the Group had benefited from contributions and frank exchanges with staff from the IMF, the World Bank, and the Commission of the European Communities. The Group had found, inter alia, that virtually all developing countries had experienced sizeable shortfalls in their commodity export earnings and that commodity-related shortfalls had a severe negative impact on economic and social development, especially of the least developed countries and of those countries which were heavily dependent on commodities for their export earnings and were highly indebted. It had also found that there was a significant difference between estimates of the size of total commodity export earnings shortfalls experienced by developing countries and the finance made available under existing compensatory financing facilities. It had concluded that the problems created by shortfalls were a matter of concern to the international community as a whole.

6. In its recommendations, the Group had recognized that compensatory financing could be commodity-related, addressing some aspects of the instability problems in the commodity sector, and that this approach could contribute to rehabilitation and diversification in the area of commodities. It had also recognized the value of the existing commodity-related schemes, that they should be kept under review and that there was scope for further international action in the area of compensatory financing. . It had recommended that developed countries other than the EEC and Switzerland be invited to consider the possibility of introducing commodity-related schemes and it had encouraged further co-operation among such schemes. Also, the Group had recommended that the problem of commodity export earnings shortfalls of developing countries arising from export earnings instability, as well as actions taken or required in the area of compensatory financing of export earnings shortfalls, should be kept under continuous review in UNCTAD, and it had requested the secretariat to follow developments in various compensatory financing schemes and their implications for the development of developing

countries. In addition, there were various recommendations on which there had been no complete agreement. These concerned the operations of the new Compensatory and Contingency Financing Facility of the IMF (IMF-CCFF), the establishment of an additional international compensatory financing facility and the devising of a multilaterally agreed set of principles, objectives, rules and modalities for the operation of existing and forthcoming compensatory financing schemes.

7. He believed that, in its discussions, the Board should bear in mind that virtually all developing countries had experienced shortfalls in their commodity-related export earnings. He also considered that the Board had to take into account recent developments in the operation of the existing compensatory financing facilities. He noted that, in 1989, only three countries had made drawings from the new IMF-CCFF under the compensatory financing component and none had made use of the contingency component, a situation which contrasted clearly with that of the early 1980s. He outlined certain factors that could explain why the new facility had not attracted clients. He welcomed the fact that, with regard to STABEX, further assistance under the fourth Lomé Convention would be in the form of grants, and he noted that concerted efforts had been made during the third Convention to ensure that funds were used for the purposes agreed in the Convention.

8. Although the Intergovernmental Group of Experts had not reached unanimous agreement on the creation of an additional facility, it had agreed that there was scope for further international action in the area of compensatory financing and had recognized the need for a continuous review in UNCTAD of the problem of the commodity export earnings shortfalls, as well as actions taken or required in the area. He stressed that the problem had in no way disappeared, and that existing facilities were not providing a solution. He was of the opinion that the recommended review had to focus on the identification of a mechanism or mechanisms to cope with the problem of shortfalls in commodity export earnings. He concluded by saying that it was high time to give serious thought to finding concrete solutions to a problem whose existence was not in question and on which there was also agreement that action was required.

9. The spokesman for the Group of 77 (Egypt) said that international efforts within the framework of UNCTAD had resulted in a considerable degree of agreement being reached on basic conceptions and analyses in the field of compensatory financing of export earnings shortfalls. It was generally recognized, for example, that virtually all developing countries had experienced sizeable shortfalls in their commodity export earnings and that there was a gap between the commodity export earnings shortfalls and the compensatory financing available from the various existing facilities; that commodity-related shortfalls in export earnings of developing countries had a severe negative impact on economic and social development, especially in the least developed and African countries and those which were heavily dependent on commodities for their export earnings and which were highly indebted; that problems created by shortfalls were a matter of concern to the international community as a whole; and that compensatory financing could address certain aspects of the instability problems being experienced in the commodity sector and thus contribute to rehabilitation and diversification in the area of commodities.

10. His Group believed that an assessment of the role and functioning of compensatory financing facilities was a prerequisite for any course of action that might be adopted. With regard to the operations of the IMF's Compensatory Financing Facility (IMF-CFF) from 1984 to October 1988, he noted that, while developing countries had experienced a serious decline in their commodity export earnings, there had been a considerable decrease in the finance made available and in the number of countries making drawings. His Group believed that, given its balance-of-payments orientation, that facility had not been in a position to address basic problems of the commodity sector. With regard to the new IMF-CCFF, it had neither met the concerns of the developing countries with respect to the IMF-CFF, nor had it addressed problems connected with that facility identified by the Intergovernmental Group of Experts. His Group stressed again that the compensatory financing component should be free of conditionality, that the access limit on drawings should be increased substantially or the sizes of shortfalls should be the basis for determining access instead of the quotas, that repurchases should be phased in line with capacity to repay and that the repayment period should be extended for low-income countries.

11. The Group of 77 acknowledged the value of both the STABEX and the STABEX-LDC-ALA schemes and expressed its appreciation of the fact that under Lomé IV all STABEX funding was in the form of grants. It also appreciated the initiative of Switzerland to establish a compensatory financing programme. It reaffirmed the recommendation of the Intergovernmental Group of Experts concerning the contribution that commodity-related compensatory financing could make and the need for further international action in this area.

12. His Group believed that the remedy to the current situation of insufficient compensatory financing lay in establishing a new international financing facility to compensate for commodity export earnings shortfalls along the lines of the principles specified in paragraph 7 of the conclusions and recommendations adopted at the resumed second session of the Intergovernmental Group of Experts (TD/B/1216-TD/B/AC.43/11, annex III). It also recognized the need for a multilaterally agreed set of principles for the operation of existing and future compensatory financing schemes. The question of compensatory financing should be considered within the broader context of the problems facing developing countries, especially the direct link between shortfalls in export earnings and increases in the debt burden. The developed countries, being the major beneficiaries of the decline in commodity prices, had a moral responsibility to compensate for export earnings shortfalls of developing countries.

13. He noted that the tradition of presenting the analyses, studies and suggestions of UNCTAD to the relevant institutions such as the IMF-World Bank Development Committee should continue. His Group reaffirmed the recommendation contained in paragraph 11 of the conclusions and recommendations of the Intergovernmental Group of Experts (TD/B/1216-TD/B/AC.43/11, annex III) and believed that an enhanced mechanism should emerge from the special session of the Board in order to continue the efforts aimed at the attainment of the objectives set by the international community in the field of compensatory financing.

14. The representative of China said that the shortfalls in commodity export earnings were not an isolated problem and that they had affected virtually all developing countries. The continuous fall in commodity prices since the beginning of the 1980s had resulted in a decrease in the export earnings of the developing countries, increased their debt burden and seriously affected their social and economic development. The considerable shortfalls in export earnings had restricted the debt-servicing and import capacities of most developing countries and had retarded the development of world trade.

15. Though the existing compensatory facilities had played a certain role in alleviating the export earnings shortfalls of developing countries, they had considerable limitations in terms of commodity and country coverage, and there was a significant difference between the size of total shortfalls of developing countries and the finance made available to them. He deemed it necessary to study the possibility of establishing a new facility to cope with the increasing shortfalls in the export earnings of the developing countries. Such a facility should be universal in terms of country and commodity coverage so that all the developing countries, especially the LDCs, could benefit from it.

16. Though the stabilization of export earnings depended primarily on the efforts of the developing countries, the developed countries could help create a favourable environment for the exports of the developing countries, thus playing a vital role in supporting the efforts made by the latter.

17. To solve the problem of export earnings shortfalls of developing countries, the strengthening of international co-operation and co-ordination between the developed and developing countries was needed. He expressed the hope that the UNCTAD secretariat would follow the developments in the various compensatory financing facilities on a continuous basis, would study ways and means of bridging the gap between export earnings shortfalls and available funds and would stimulate all regional groups to elaborate further alternative solutions for the problem of the commodity export earnings shortfalls of the developing countries.

18. The spokesman for Group D (Union of Soviet Socialist Republics) said that the stabilization of export earnings was one of the most important factors in the economic development of developing countries, and his Group shared the concerns of developing countries regarding the instability of international commodity markets. The combination of instability and a falling trend in prices for many commodities had had an extremely negative impact on the economy of many developing countries in the 1980s. Since other countries, including countries of his Group, played an active role in international commodity trade, their export earnings had also been negatively affected by market instability.

19. Referring to the conclusions and recommendations of the Intergovernmental Group of Experts, he expressed support for the conclusions and recommendations agreed by all regional groups and China at the Group's second session and suggested that a further review of issues related to export earnings shortfalls should be undertaken by the Committee on Commodities.

20. In further clarifying the position of his Group, he stressed the importance of concentrating on the causes of commodity export earnings shortfalls, rather than on their consequences. Group D believed that there were various ways to deal with the problem. The existing compensatory facilities could temporarily alleviate the financial consequences of market instability, but it was more important to undertake an analysis of the real causes of instability on the basis of in-depth consideration of the situation in international commodity markets and of the main factors affecting commodities from both the demand and supply sides. Of particular importance was the stabilizing potential of existing and possible new international commodity agreements, the conclusion of which could be facilitated - with due account being taken of the interests of trading partners - by the launching of the Common Fund. Due attention should be paid to work in the area of diversification, processing, marketing and distribution which could help reduce countries' dependence on exports of commodities.

21. The activities of UNCTAD were of crucial importance for the strengthening of international economic security. Taking into account the fact that the Committee on Commodities considered the whole range of problems related to international commodity trade, he proposed that further consideration of the issues related to export earnings shortfalls should take place within that framework. This, he hoped, would provide an opportunity to consider the problem of export earnings shortfalls in conjunction with other problems of international commodity trade and would impart greater objectivity and transparency to the discussions.

22. The representative of the International Monetary Fund (IMF) summarized the essential features of the Fund's Compensatory and Contingency Financing Facility (CCFF). He said that, in 1988, 10 compensatory drawings had been made, 4 of them under the transitional provisions of the CCFF decision. In 1989, four drawings had been made for a total amount of SDR 808 million. For the first time in several years, compensatory drawings had exceeded repurchases in 1989 and net drawings were projected to rise again in 1990. In addition, since the establishment of the CCFF in August 1988, Trinidad and Tobago and the Philippines had attached contingency mechanisms to their Fund arrangements. In both cases, the net effect of the variables included under the contingency mechanisms had turned out to be more favourable; consequently, in accordance with the symmetry provisions of the CCFF, the two countries were required to conserve part of the unanticipated gains in their international reserves. He noted that financing for countries facing problems beyond those related to export price declines or other external shocks was being provided in the context of adjustment programmes supported by Fund arrangements.

23. He reported that the review of operations under the CCFF had been initiated in late 1989 and was expected to be completed soon. He then outlined the major areas for possible modifications. For the compensatory element, only minor modifications were likely to be made in the provisions governing the nature of conditionality associated with higher levels of access. He emphasized that the conditionality involved for the use of CCFF resources was the requirement that the member should co-operate with the Fund in an effort to find solutions for its balance-of-payments difficulties. For the contingency element, the features that would probably not change were the current access limits, the mix of financing and adjustment to be required in the face of external shocks, the symmetry provisions, as well as the activation

of contingency financing on the basis of a review by the Executive Board of the Fund. The modifications being suggested were aimed at simplifying the construction of contingency mechanisms to ease monitoring and to provide flexibility in the timing of requests. In view of the difficulties encountered in respect of coverage of variables in the external current account, consideration was being given to limiting the coverage to highly volatile and easily identified exogenous components. In addition, allowing members to request a contingency mechanism at the time of review of multi-year arrangements was being considered. The Fund would undertake reviews of the CCFF on a periodic basis and continue to benefit from inputs from international organizations, including those of UNCTAD which had proved to be extremely useful.

24. The representative of the European Economic Community outlined the state of application of the STABEX system under Lomé III and the results of the renegotiation of STABEX and SYSMIN under the fourth Lomé Convention, which would operate for the next 10 years. He reported that the fundamentals of the system had not changed, but the structural approach of STABEX had been considerably accentuated, as problems in the field of commodities could no longer be considered to be only of a cyclical and/or temporary nature; rather they resulted from long-term structural difficulties in the relevant productive sectors and/or the relevant world markets. In future, the system would serve as an instrument for co-operation in the field of commodities.

25. He then briefly enumerated the main changes: all transfers were outright grants; a protocol would set out a framework of mutual obligations governing the use of each transfer; the term "sector" was to be understood in a very broad sense, including all activities in the area of processing, marketing, distribution and transportation of the product concerned. The new scheme provided not only foreign exchange but also genuine sectoral support for the ACP countries' agricultural commodities. He announced that the funding of the system had been raised by 62 per cent and the trade coverage had been extended by four products.

26. After four years of operation of Lomé III, 1.24 billion ECU had been disbursed to 36 ACP countries, of which 525 million ECU had benefited the least developed ACP countries. In this context, he recalled that revenue stabilization was only a complement to price stabilization.

27. With regard to the special facility for mining products (SYSMIN), the structure had been clarified and the possibility of maintaining or returning to viability would be an important parameter for defining the project to be financed. Two new products had been included, namely uranium and gold. Aid would be in grant form and the total amount for SYSMIN under Lomé IV was 480 million ECU.

28. After three years of operation, a total of 30 million ECU had been paid to four countries under the STABEX-LDC-ALA scheme.

29. He recalled that the EEC Commission was ready to provide technical assistance if other STABEX-type schemes were planned or introduced by other donors. He agreed with the recommendation in paragraph 11 of the conclusions

and recommendations of the Intergovernmental Group of Experts that the matter of compensatory financing should be kept under review in UNCTAD (TD/B/1216-TD/B/AC.43/11, annex III). He suggested that the Committee on Commodities would be the most appropriate body to carry out this work.

30. The representative of Switzerland outlined the characteristics of the Swiss compensatory programme which had been announced at UNCTAD VII to compensate for the shortfalls in selected commodities exported by the least developed countries to Switzerland. The decision to proceed independently with an autonomous programme had been taken after evaluating the different existing programmes and possible co-operative arrangements. The programme had come into force at the end of 1988. He specified that all the transfers were in the form of grants without any obligation to make purchases in Switzerland. The products covered and the method of calculation were to a large extent identical to the STABEX scheme and the calculations were made by the Commission of the EEC. When possible, the financing was allocated to projects in the sector concerned and integrated into structural/sectoral or diversification programmes. The financing was either part of multilateral co-financing or was granted under a bilateral accord. In 1989, six African countries - Chad, Central African Republic, Sudan, Togo, Uganda, and United Republic of Tanzania - had received a total of 16 million Swiss francs in respect of four commodities (coffee, cocoa, cotton and groundnuts). In 1990 four countries (Ethiopia, Gambia, Chad and Vanuatu) had received 19 million Swiss francs for coffee, groundnuts, cotton and copra. In this way, all substantial shortfalls of the least developed countries arising from commodity exports to Switzerland during the period 1986-1988 had been fully compensated. Observing that the system had been operating satisfactorily, he announced that the Swiss Government was about to propose to Parliament a substantial increase in the financing allocated to the programme (1991-1993).

31. The representative of Indonesia supported the views expressed by the spokesman for the Group of 77, particularly with regard to the need for the Board to consider the conclusions and recommendations of the Intergovernmental Group of Experts. His delegation recognized that commodity export earnings shortfalls were caused by the instability in commodity markets, related to demand, supply and other factors. These shortfalls had an adverse impact on the social and economic development of many developing countries and limited their ability to service their debt and to import capital goods needed for their development.

32. His delegation fully concurred with the conclusions of the Intergovernmental Group of Experts that compensatory financing could be commodity-related and address some aspects of instability problems in the commodity sector. It had been acknowledged that the various existing commodity-related schemes - EEC/ACP, STABEX, SYSMIN, STABEX-LDC-ALA - as well as the new Swiss programme were valuable, but they were limited in their country and product coverage. The new IMF-CCFF had not been able to overcome the problem of the export earnings shortfalls suffered by developing countries because it was too complicated, access to it was subject to stringent conditions, and it was not especially related to commodity export earnings shortfalls.

33. In conclusion, he expressed the hope that the Board would be able to reach agreement on a set of principles for intermediate action as proposed in paragraph 7 of the conclusions and recommendations adopted at the resumed session of the Intergovernmental Group of Experts in April 1989 (TD/B/1216-TD/B/AC.43/11, annex III) and that the Board would now adopt the recommendations in paragraph 11 of those conclusions and recommendations.

34. The representative of Canada stated that, although his country had not participated in the work of the Intergovernmental Group of Experts, this had not been due to lack of concern for the difficulties of countries that were highly dependent on earnings from the export of commodities. It reflected rather the consistent position of his country, which had abstained on Conference resolution 157 (VI). The non-participation in the work of the Intergovernmental Group of Experts reflected his Government's analysis of the problem of export earnings shortfalls which was at odds with the theoretical basis for the work of the Group of Experts. Having reviewed the report of the Intergovernmental Group of Experts carefully, his Government had seen no reason to modify its position in this area. His country continued to adhere to the view that export earnings shortfalls were a balance-of-payments and macro-economic issue, and the IMF was therefore the appropriate source of special financing for temporary export earnings shortfalls through the CCFF. His country continued to oppose the establishment of new compensatory export financing facilities outside the IMF and was not prepared to participate in any facility compensating export shortfalls in one commodity without consideration of exports in other commodities or of the overall balance-of-payments and macro-economic situation of the country concerned. Canada would support and participate in future UNCTAD work in the area of commodity production and exports, particularly regarding highly commodity-dependent developing countries, but it could not support continued analysis in UNCTAD of the need for a new facility or further work on the rules and modalities of any additional compensatory financing facility.

35. The representative of the African, Caribbean and Pacific Secretariat stated that 14 years' experience in the application of STABEX had proved that, although the general principles of the system were good, they could not contribute to the development of the ACP countries unless the rules and their application took account of the situation in those countries. He thought that an assessment of the merits of STABEX under the Fourth Lomé Convention would be of vital importance to the deliberations in UNCTAD, as STABEX could serve as a model for elaborating the rules and modalities of any additional compensatory financing facility. He then outlined the main features of the ACP negotiating position on STABEX, and the results achieved during the negotiations, covering such aspects as objectives, product coverage, all destinations derogation, volume of resources, replenishment, dependency thresholds, reference level, excess clause, tunnel method, reduction of the transfer basis in case of insufficiency of resources, use of resources, statistical errors and omissions, and co-management. Finally, he expressed the ACP countries' desire for effective implementation of the provisions of Lomé IV, which had been elaborated by the ACP States in close collaboration with EEC countries. He also expressed the hope of the ACP States for quick disbursement of STABEX funds and for full coverage of all legitimate STABEX transfer requests.

36. The representative of Norway said that she fully recognized the importance of commodity export earnings shortfalls problems. She agreed with the recommendation of the Intergovernmental Group of Experts that the problem of commodity export earnings shortfalls and actions taken or required in the area of compensatory financing of export earnings shortfalls should be kept under continuous review in UNCTAD and that this could preferably be done within the framework of the Committee on Commodities. She felt that the use of compensatory financing might facilitate structural adjustment in developing countries and might contribute to an enhancement of their possibilities for planning. As ensuring the flexibility and usefulness of existing compensatory financing facilities for the developing countries must be the prime objective, there was room for an exchange of views on this issue in UNCTAD.

37. The representative of Sweden recalled that the issue of commodity export earnings shortfalls had long been on the agenda of UNCTAD and the discussion had been actively supported by his country. He believed that export earnings shortfalls often originated from commodity problems and, unless these underlying problems were tackled, financing per se would only have limited results. He supported the recommendations of the Intergovernmental Group of Experts and, as regards the review of the issue in UNCTAD, he felt that the Committee on Commodities would be the appropriate forum for dealing with this issue. The door should be kept open for follow-up action on these recommendations.

38. The representative of the United States of America stated that his country viewed export earnings shortfalls as a balance-of-payments problem and that this position was reflected in the relevant parts of paragraph 92 of the Final Act of UNCTAD VII (TD/350). Any compensatory financing facility was accordingly a matter for the IMF and not UNCTAD. Concerning UNCTAD's future role, if any, as regards compensatory financing for commodity export earnings shortfalls, he said that his Government shared the views expressed by the representative of Canada.

39. The representative of the United Republic of Tanzania said that his country had a real interest in finding a satisfactory solution to the problem of commodity export earnings shortfalls. The establishment of an additional compensatory financing facility could be considered as a transitory solution to the problem. The long-term solution lay in a complex of measures, including measures in the area of diversification, processing, marketing and distribution of commodities. The launching of the Common Fund for Commodities had been of great significance in this respect. He also expressed appreciation for the new compensatory financing programme of Switzerland and for the mechanisms of the Fourth Lomé Convention, noting with satisfaction that under the new STABEX scheme all funding was in the form of grants.

40. At the Board's 764th meeting, on 8 March 1990, the spokesman for the Group of 77 (Nigeria), speaking also on behalf of China, introduced draft decision TD/B/L.892, entitled "Compensatory financing on export earnings shortfalls".

41. At the Board's 765th meeting, on 9 March 1990, the President introduced draft decision TD/B/L.893, entitled "Compensatory financing of export earnings shortfalls".

Action by the Board

42. At its 765th meeting, the Board adopted draft decision TD/B/L.893 (see decision 379 (S-XVI)).

43. Draft decision TD/B/L.892 was subsequently withdrawn by its sponsors.

Closing statements

44. The spokesman for the Group of 77 (Egypt) said that what the Board had achieved at its sixteenth special session was positive, but his Group regarded it as merely a step along the way towards the ultimate goal. The international community still had a long way to go before the problem of compensatory financing of export earnings shortfalls could be resolved satisfactorily.

45. The spokesman for Group D (Union of Soviet Socialist Republics) said that the decision adopted by the Board at its sixteenth special session would make it possible to pursue consideration within UNCTAD's Committee on Commodities of an issue which was important for many countries, namely export earnings shortfalls and compensatory financing. The Committee on Commodities should be able to take a comprehensive approach to the issue, considering it in conjunction with other world commodity trade problems and possible measures to normalize such trade.

46. According to the Board's decision, the first review of compensatory financing of export earnings shortfalls by the Committee on Commodities should take place prior to UNCTAD VIII, i.e. at the Committee's fourteenth session. The agenda for that session had already been approved, and the question of export earnings shortfalls would have to be discussed under one of the existing items, for example the item on the current situation in commodity markets.

47. The representative of China said that the question of compensatory financing of export earnings shortfalls had been under discussion in UNCTAD for almost three decades, and different approaches had been tried, but the results had not come up to expectations. The problem of export earnings shortfalls therefore continued to exist and was indeed a major problem for most developing countries. This was recognized by the international community, including the developed countries, which should show their sincerity by tackling the problem seriously. The fact that the agenda for the fourteenth session of the Committee on Commodities had already been drawn up must not prevent the question of export earnings shortfalls from being discussed before UNCTAD VIII in order to maintain momentum.

48. The representative of Australia said that, given the history of compensatory financing in UNCTAD and the Board's decision, he wished once more to put on record his country's views, namely, that the impact of export earnings shortfalls was directly reflected in broader balance-of-payments difficulties which could, in turn, have a serious impact on the development prospects of developing countries. Recognizing this, the IMF and the World Bank already offered arrangements to address the problems thus created by responding to the issue of the capital requirements of affected countries. Both institutions took a comprehensive view of the economic conditions of

potential beneficiaries, rather than considering the problem in a narrow sectoral sense. Australia supported those arrangements and believed that they should continue to be reviewed with a view to improving their effectiveness. While Australia had a continuing and active interest in substantive commodity discussions, neither the report of the Intergovernmental Group of Experts (TD/B/1261) nor the discussions at the special session had provided sufficient justification for alternative proposals for compensatory financing facilities.

49. Australia had consistently questioned the appropriateness of arrangements for export earnings stabilization which were commodity-specific rather than related to balance-of-payments considerations. Reliance on interim mechanisms such as compensatory financing interfered in the effective workings of commodity markets and diverted attention away from more central problems of commodity markets. Proponents of compensatory financing tended to view the current commodity situation as a cyclical phenomenon and ignored the real issues, including that of agricultural protection, which were the primary causes of distortion and disruption to commodity markets.

50. His country therefore saw the long-term solution to the problem of adverse effects on the export earnings of developing countries in a more open, less distorted multilateral trading system, which, it hoped, could be achieved through a successful outcome of the Uruguay Round Multilateral Trade Negotiations.

Chapter II

INSTITUTIONAL, ORGANIZATIONAL AND RELATED MATTERS

(Agenda items 1, 3 and 4)

A. Opening of the session

51. The sixteenth special session of the Trade and Development Board was opened on 8 March 1990 by H.E. Mr. Oscar de Rojas (Venezuela), President of the Board. 1/

B. Adoption of the agenda and organization of the work of the session

(Agenda item 1 (a))

52. At its 763rd plenary meeting, on 8 March 1990, the Board adopted its provisional agenda, as contained in document TD/B/1247 (for the agenda as adopted, see annex I).

C. Membership and Attendance 2/

53. The following States members of UNCTAD, members of the Board, were represented at the session: Afghanistan; Algeria; Argentina; Australia; Austria; Bahrain; Bangladesh; Belgium; Bhutan; Bolivia; Brazil; Bulgaria; Burundi; Byelorussian Soviet Socialist Republic; Cameroon; Canada; Chile; China; Colombia; Congo; Côte d'Ivoire; Cuba; Czechoslovakia; Democratic People's Republic of Korea; Democratic Yemen; Denmark; Dominican Republic; Ecuador; Egypt; El Salvador; Ethiopia; Finland; France; German Democratic Republic; Germany, Federal Republic of; Ghana; Greece; Hungary; India; Indonesia; Iraq; Ireland; Israel; Italy; Jamaica; Japan; Jordan; Kenya; Kuwait; Lebanon; Liberia; Libyan Arab Jamahiriya; Madagascar; Malaysia; Mexico; Mongolia; Morocco; Myanmar; Netherlands; Nicaragua; Nigeria; Norway; Pakistan; Panama; Peru; Philippines; Poland; Portugal; Qatar; Republic of Korea; Romania; Saudi Arabia; Senegal; Somalia; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Syrian Arab Republic; Thailand; Tunisia; Turkey; Ukrainian Soviet Socialist Republic; Union of Soviet Socialist Republics; United Arab Emirates; United Republic of Tanzania; United States of America; Uruguay; Venezuela; Viet Nam; Yemen; Yugoslavia; Zimbabwe.

54. The following other States members of UNCTAD, not members of the Board, were represented at the session: Dominica; Rwanda.

55. The Pan Africanist Congress of Azania participated pursuant to General Assembly resolution 3280 (XXIX).

56. The United Nations Development Programme was represented at the session. The International Trade Centre UNCTAD-GATT was also represented at the session.

57. The following specialized and related agencies were represented at the session: Food and Agriculture Organization of the United Nations; World Bank; International Monetary Fund. The General Agreement on Tariffs and Trade was also represented at the session.

58. The following intergovernmental organizations were represented at the session: African, Caribbean and Pacific Group of States; Commonwealth Secretariat; European Economic Community; League of Arab States.

59. The following non-governmental organizations were represented at the session: General Category: International Council of Women. Special Category: International Association for the Protection of Industrial Property.

D. Adoption of the report on credentials

(Agenda item 1 (b))

60. At its 765th meeting, on 9 March 1990, the Board decided that, given the short duration of the sixteenth special session and its proximity to the second part of the thirty-sixth regular session, the Bureau should examine simultaneously the credentials pertaining to both sessions and present a single report for adoption at the regular session. 3/

E. Adoption of the report of the Board

(Agenda item 4)

61. At its 770th plenary meeting, on 16 March 1990, the Board adopted the draft report on its sixteenth special session (TD/B/894) and authorized the Rapporteur to complete the text as appropriate.

F. Closure of the session

62. At the same meeting, the President declared the sixteenth special session closed.

Annex I

AGENDA FOR THE SIXTEENTH SPECIAL SESSION OF THE TRADE AND DEVELOPMENT BOARD

1. Procedural matters:

   (a) Adoption of the agenda and organization of the work of the session;

   (b) Adoption of the report on credentials

2. Compensatory financing of export earings shortfalls: report of the Intergovernmental Group of Experts convened pursuant to Board decision 317 (S-XIV)

3. Other business

4. Adoption of the report of the Board.

Annex II

CHECK-LIST OF DOCUMENTS

Document No.	Title	Agenda item
TD/B/1216 - TD/B/AC.43/11	Report of the Intergovernmental Group of Experts on the Compensatory Financing of Export Earnings Shortfalls on its resumed second session	2
TD/B/1247	Provisional agenda	1 (a)
TD/B/1252	Agenda	1 (a)
TD/B/1256(Vol.I)	Decision adopted by the Board at its sixteenth special session	
TD/B/L.892	Compensatory financing of export earnings shortfalls: draft decision submitted by Nigeria on behalf of the States members of the Group of 77 and China	2
TD/B/L.893	Compensatory financing of export earnings shortfalls: draft decision submitted by the President	2
TD/B/L.894	Draft report of the Trade and Development Board on its sixteenth special session	4
TD/B/INF.176	List of participants	

Notes

1/ For the composition of the Bureau elected at the first part of the thirty-sixth regular session, see the report of the Board on that session (TD/B/1234(Vol.II)).

2/ For the list of participants, see TD/B/INF.176.

3/ The relevant report on credentials (TD/B/L.1255) was adopted by the Board without discussion at the 772nd meeting, on 23 March 990.

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